

TESTIMONY OF

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On behalf of the

HOUSING POLICY COUNCIL of THE FINANCIAL SERVICES ROUNDTABLE

Before the

**COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

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INTRODUCTION

Good morning Chairman Frank, Ranking Member Bachus, and members of the Committee. I am John Dalton, President of the Housing Policy Council of The Financial Services Roundtable. I appreciate the opportunity to testify before the Committee today on behalf of the Housing Policy Council (HPC) of The Financial Services Roundtable.¹

The Housing Policy Council of The Financial Services Roundtable believes that all mortgage lenders should embrace responsible lending principles and work to keep people in their homes. Federal regulatory action or legislation on non-prime lending must strike a careful balance that provides enhanced consumer protections without unintentionally limiting the availability of loans to credit-worthy borrowers. Potential federal legislation to provide additional consumer protections must also establish a single uniform national standard that will provide consistent protections to consumers in all fifty states replacing state and local lending requirements. This standard should preserve the existing regulatory and enforcement authority of the federal banking regulators over federally chartered institutions and their affiliates.

Regulatory action, such as the pending federal subprime guidance, and potential national legislation should be based on the principle that lenders should only make home loans to borrowers whom they reasonably believe have the ability to repay the loans based on information available at the time the loan is made. In addition, loans should offer a demonstrable benefit to the consumer, such as purchasing a home, obtaining significant new money, converting an adjustable rate loan to a fixed rate or reducing monthly debt payments. Loan terms, features, benefits and risks should be disclosed to borrowers in ways that enable them to make an educated decision about the loan product that they choose. The timing and estimated amounts of future payment changes should be clearly communicated

¹ The twenty-three member companies of the Housing Policy Council originate and service approximately two thirds of all prime mortgages and 45% of all subprime mortgages in the United States. The Financial Services Roundtable formed HPC in April 2003 to be the premier forum to address the most critical mortgage finance and housing public policy issues. Housing finance is truly a national industry and HPC member companies seek to serve customers across the nation.

to borrowers in accordance with applicable disclosure laws and good business practices. Finally, servicers and investors should make available to borrowers appropriate options to help them sustain homeownership.

In today's testimony, we want to give the committee a more complete perspective on what our members are doing to assist their borrowers and to prevent and reduce foreclosures whenever possible.

EVERYONE LOSES IN A FORECLOSURE

First, I want to address a popular misperception- that is that lenders want to foreclose. The exact opposite is true; responsible lenders do not want to foreclose. Foreclosure is bad for everyone: the borrower, the neighborhood, the community and the lender. Lenders lose money in a foreclosure and they also lose a customer; responsible lenders want customers for life who can benefit from other services and products they offer. Lenders have options available to homeowners who are in financial difficulty. The first step is to ensure that a homeowner who is in trouble contacts his lender and asks for assistance as soon as possible.

NATIONAL PROGRAM

HPC member companies and all responsible lenders want our customers to be successful; we want our borrowers to repay our loans and enjoy the satisfaction that homeownership brings. One of the ways we are helping our customers be successful homeowners is through a national partnership with NeighborWorks® America and the Homeownership Preservation Foundation.

This national partnership is based on the successful Chicago Homeownership Preservation Initiative (HOPI), an innovative partnership between the City of Chicago, the Federal Reserve Bank of Chicago, the Neighborhood Housing Services of Chicago (a NeighborWorks affiliate), the Homeownership Preservation Foundation and several lenders who all worked together to tackle the city's rising foreclosures. Through the City of Chicago's 3-1-1 hotline, homeowners facing problems

making mortgage payments can dial 311 and immediately receive free independent counseling by certified housing counselors who are available twenty-four hours a day, seven days a week. By all measurements, this program has been a success. In the first three years of the program, over 4,000 Chicago homeowners received counseling, over 1,300 families avoided foreclosure, and the program resulted in \$267 million in collective savings for the City of Chicago, its homeowners and HOPI lender partners.²

Building on the successful Chicago HOPI program, seventeen lenders, including fourteen HPC companies have partnered with respected national non-profits and Freddie Mac in a national foreclosure prevention campaign.³ All participants are united in the goal of helping homeowners avoid foreclosure whenever possible. Through this new and innovative program, our member companies are taking proactive measures to help any homeowner who is experiencing a financial crisis and potential foreclosure. The goals of this partnership are:

- Linking homeowners in danger of foreclosures to the Homeownership Preservation Foundation's accredited counselors to get the financial advice they need to avoid foreclosure.
- Establishing foreclosure intervention programs in cities and localities with high rates of foreclosure.
- Conducting a national public education campaign with the Ad Council to improve contact rates for those in financial distress.
- Improving counseling capacity and providing certified training programs to foreclosure counselors across the nation.

² "Home Ownership Preservation Initiative (HOPI) Partnership Lessons and Results: Three Year Final Report." Neighborhood Housing Services of Chicago, July 17, 2006.

³ As of March 2007, the national partners of this program are: Homeownership Preservation Foundation; NeighborWorks® America; Housing Policy Council; American General Financial Services, a member of AIG, Inc.; Bank of America; Citigroup; Countrywide Home Loans; EMC Mortgage; Freddie Mac; GE; Homecomings Financial- a GMAC Company; HSBC- North America; JPMorgan Chase; LaSalle Bank Corporation- member of ABN-AMRO Group; National City Mortgage Co.; New Century Financial Corporation; Ocwen Loan Servicing, LLC; Option One Mortgage; State Farm Insurance; Washington Mutual; Wells Fargo Home Mortgage.

- Conducting industry research to better diagnose issues in the new mortgage market and advising on potential solutions.

The Homeownership Preservation Foundation (HPF) was founded in 2004 with a \$20 million grant from GMAC-RFC for the purpose of reducing foreclosures across the nation. HPF established the Credit Counseling Resource Center, 888-995-HOPE, a free 24/7 hotline staffed by 80 trained housing counselors, to assist owners at-risk throughout the country. The NeighborWorks® Center for Foreclosure Solutions is an initiative of NeighborWorks America, a nonprofit organization, founded by Congress, providing financial support, technical assistance and training for communities across the nation, including the NeighborWorks network—a nationwide network of more than 245 community development organizations working in more than 4,400 urban, suburban and rural communities across America. These organizations engage in revitalization strategies that strengthen communities and transform lives. In the last five years alone, NeighborWorks organizations have generated more than \$10 billion in reinvestment and helped more than 780,000 families of modest means purchase or improve their homes or secure safe, decent rental housing.

The free phone counseling, which can be reached by dialing 888-995-HOPE, is provided by the Homeownership Preservation Foundation's Credit Counseling Resource Center. Every counselor is an independent specialist in foreclosure prevention, certified by the Department of Housing and Urban Development. There is no switchboard; the phone is answered by housing counselors who are available twenty-four hours a day, seven days a week. When homeowners call the hotline, a trained counselor answers the phone and the service starts immediately. The counselor endeavors to understand the homeowner's situation and help him find a workable solution.

The counselor and the homeowner identify together the reasons why the homeowner is behind with their mortgage. Together, they review the homeowner's income, budget, loan terms and delinquency status; then, the counselor and homeowner discuss options for working out of the situation.

In about 25 percent of the counseling sessions, the homeowner is recommended for loan workouts and the counselor helps the homeowner work with the servicer on a loan modification of some kind that fits within the financial ability of the homeowner to implement. Workout options can be a forbearance, where a homeowner makes reduced or suspended payments until re-employed or their temporary situation is resolved; a repayment plan, where the homeowner repays their past due payments over a period of time; or a loan modification, where the terms of the loan are changed.

Not all homeowners can be helped through a workout. If they have no income and little prospect for employment, there is very little that can be done. In those cases, the goal is for the homeowner to preserve the equity by selling their home. So far the frequency seems to be about 17 percent of the cases; this is more desirable for the homeowner than having it sold at auction at the end of a foreclosure proceeding.

This program can be accessed anywhere in the U.S. simply by calling 1-888-995-HOPE. In 2006, over 48,000 homeowners sought help through counseling services funded by the Homeownership Preservation Foundation; 25,000 of them called the HOPE hotline; nearly half have avoided foreclosure by engaging in a workout or by selling their home. Call volume has grown 30% since the end of 2006 and daily volume ranges from 350 to 1,000; in the First Quarter of 2007, almost 7,000 homeowners were counseled via 888-995-HOPE.

In June 2007, a national Ad Council campaign will be launched promoting this number and urging homeowners in trouble to seek help. We expect this program to continue to be an extremely valuable resource for distressed homeowners, and are committed to ensuring its success.

The partnership also performs targeted rollouts in areas of high foreclosure. In 2006 and 2007, the program was introduced in Ohio, Delaware, Baltimore, Maryland, and Atlanta, Georgia. Prior to 2006, the hotline was also introduced in Dallas, Texas and Detroit, Michigan. In these locations, the partnership has hosted a variety of events including:

- Training for in-person counselors to enable them to help homeowners in financial distress and at risk of foreclosure, hosted NeighborWorks®.
- Foreclosure prevention/homeownership preservation workshops/seminars: Homeowners in or at risk of foreclosure are invited to seminars where they can learn about their options and talk to their lender if they so choose.
- Lenders, local governments and community group discussions: Organizations involved in foreclosure prevention share best practices and collaborate on ways to best work together to keep homeowners in their home and out of foreclosure.

This national foreclosure prevention effort is not a recent initiative. The Housing Policy Council and our member companies have been working with the Homeownership Preservation Foundation since 2004 to create this national program.

We would hope that you agree this program has merit, and that you will also promote it in your districts and whenever you have an opportunity. Awareness efforts by trusted third parties such as Members of Congress will help us connect with more homeowners who are in distress, and give us an opportunity to keep them in their homes.

Our member companies and all responsible lenders take this issue very seriously. We want to help consumers be successful homeowners and to avoid foreclosures. We believe our homeownership preservation effort is a model to help homeowners in distress. Our message is that lenders want to work with all interested parties – non-profits, public officials and the media – to get the message to homeowners that help is available. The most important first step is to make the call to ask for help.

For consumers and your constituents in financial distress and in danger of facing foreclosure, they need to know:

- Foreclosure is not inevitable- you have options. The earlier you act the more options you have.

- Free trustworthy help is available all day, all night, all weekend, provided by this partnership of national non-profits, HPC and its members. Working together we are solving this problem for thousands of Americans.
- Responsible lenders do not want to foreclose; they want to work with the homeowner to prevent foreclosure.

Attached to this testimony is a one page summary of the key information on the HOPE counseling program. It is the key information on getting help for any homeowner who is behind on their mortgage and in need of help.

EFFORTS BY LENDERS

In addition to the joint HOPE foreclosure prevention effort, the individual member companies of the Housing Policy Council are actively involved in a variety of individual efforts and cooperative programs to help their customers in or near foreclosure. Our members are aggressively adopting new programs and products to address the specific difficulties subprime borrowers may have, in particular, those with adjustable rate mortgages in this challenging interest rate environment and the slowing housing market.

Our members are taking action to offer options before a borrower is in default that are designed to ensure that borrowers are in the best possible position to anticipate and manage the challenges they may face with upcoming payment adjustments.

These actions include: proactively contacting borrowers through a variety of channels – direct mail, email, interactive websites, inbound and outbound calling – to let them know of affordable refinance opportunities or of mutually agreeable payment plans that will keep borrowers in their homes.

For those borrowers who are unable to make their mortgage payments and where refinancing is not an option, lenders have adopted loss mitigation efforts to help them avoid foreclosure. These efforts include forbearance agreements of varying lengths (up to 12 months in some cases), loan modifications,

enhanced counseling programs and increased staffing to assist customers. With regard to loan modifications, lenders are reducing payment amounts, lowering interest rates and/or extending the terms of the loans held by subprime borrowers.

A member company has also initiated a relief fund that will provide qualified subprime borrowers with adjustable rate mortgages the option to refinance to fixed rate loans at a discounted rate.

Companies are also partnering with non-profits and creating rescue funds to assist homeowners in danger of foreclosure. These funds are especially intended to assist customers who have experienced a medical or financial hardship that has led to their default.

These are just a few examples of the efforts our members are taking to assist distressed subprime borrowers. We believe these efforts demonstrate our members' commitment to help subprime borrowers avoid foreclosure and remain in their homes during this difficult economic time. These options cannot work, however, if the borrower does not contact the lender when he or she is in financial distress. It is estimated that 50% of borrowers who lose their home to foreclosure never contacted their lender. Third party websites, including HUD and many community groups, urge borrowers to contact their lenders when in default or when personal financial issues are creating payment problems. We welcome assistance from any trusted third party, such as members of Congress and their staff, to help us get the word out that contacting servicers early can lead to solutions that can help homeowners stay in their homes and avoid foreclosure.

Similarly, in a Freddie Mac survey it was found that the majority of homeowners (both those in delinquency and in good standing) are not aware of services that mortgage lenders can offer to a person having trouble with their mortgage.⁴

Part of the solution to reach people who will not talk with their lender lies in creating partnerships with trusted third parties, such as nonprofit counseling agencies, local officials and advocacy groups, to create a holistic outreach. Our members have established and expanded their existing partnerships with

⁴ Freddie Mac. "Foreclosure Avoidance Research." Conducted by Roper Public Affairs, a division of Gfk NOP, 2005.

local agencies, nonprofit organizations and other financial institutions to provide subprime borrowers alternative solutions to foreclosure. The following are a few specific examples of cooperative local efforts that HPC companies are supporting in addition to the targeted rollouts of 1-888-995-HOPE:

- Colorado: Partners, including several lenders, the Colorado Division of Housing, the Colorado Association of Realtors, the City and County of Denver, Freddie Mac and the Colorado Attorney General's Office established a state-wide hotline, 1-877-601-HOPE, for homeowners at risk of foreclosure.
- Cuyahoga County, Ohio: Consumers can make appointments for in-person counseling by using the United Way 2-1-1 hotline,
- Houston: The HOPE partnership is hosting several consumer homeownership preservation seminars and specifically advertising the existence of the HOPE program..
- Indiana: Momentive program was established in 2004, to provide homeownership and budget counseling to Indiana residents. It is available to consumers state-wide.
- New York City: New York's Preserve Assets and Community Equity (PACE) program was launched in 2005. The program includes participation by the New York Department of Housing, HUD certified counseling agencies and community partner organizations. The PACE initiative focuses its marketing outreach in NYC communities with the highest foreclosure rates and conducts consumer seminars.
- After Hurricane Katrina, lenders partnered with a national non-profit to attempt to contact residents who had been evacuated from the area to encourage them to contact their lender to take advantage of the extended forbearance options available to Katrina victims. In addition to canvassing New Orleans neighborhoods, volunteers knocked on doors in apartment complexes in Houston, Baton Rouge, and other cities with high concentrations of hurricane evacuees. That effort is continuing to today to reach borrowers to encourage them to apply for Road Home grants.

These are just some of the actions that HPC member companies and other lenders are taking to assist their customers who are delinquent on their mortgages and in need of assistance.

SECURITIZATION

The effort to assist borrowers is also affected by whether a loan is held in portfolio or has been sold into the secondary market. Loans in the secondary market are accumulated with other loans in a pool of loans and shares of the interest or principal payments or both are in turn sold as investments to third parties such as pension or retirement funds, insurance companies, individuals and others, both domestic and foreign. Up and down along the chain of securitization, contracts between and among the different participants establish the relationship of the parties and their duties and responsibilities.

Often the ownership of the loan and the rights to the revenues streams generated by the loans are sold and the duty and right to service the loan – i.e., collect payments, enforce the terms of the loan, maintain contact with the borrower, etc., - are sold separately or retained by the originator. As in the rest of the business model, contracts between the servicer and the other parties in the securitization establish the duties and responsibilities of the parties, as well as where loss falls if the borrower fails to pay and foreclosure must occur.

This model can become somewhat complicated as rights to different parts of the assets and streams of revenue are sold to different investors. To maintain the expected return for the investor, there are certain terms included in most contracts which govern the types of actions servicers can take with borrowers who are delinquent on their loans. These contract terms are not uniform, and servicers (who are now faced with the possibility that a number of loans they are servicing may default) are working to ensure that the actions they take toward borrowers are permissible under all the securitization contracts that govern the loans.

Our member companies are working hard with the other participants in the securitization chain to resolve issues that may limit the options that can be offered to borrowers, and while the issues are

sometimes difficult, they expect that jointly there will be fair and reasonable solutions that will permit lenders to assist borrowers early enough in distress situations to prevent foreclosure.

CONCLUSION:

Mr. Chairman and members of the Committee, the members of the Housing Policy Council recognize that there are a significant number of non-prime borrowers who need assistance. Our members are working individually and together to provide solutions to these borrowers with the goal whenever possible of enabling them to succeed as homeowners. We think these efforts will have an impact. To be candid, there is no perfect solution. We are at the end of one of the longest and most successful housing markets in our nation's history, but the end of any major economic cycle produces problems for individuals and businesses. The key is to help those homeowners who need assistance whenever possible. Our member companies are working today to help their borrowers.

In addition, we are ready to work with the regulators and this Committee going forward on prospective solutions that will strengthen the housing finance market; protect consumers and ensure that credit remains available to all Americans who are working to attain the dream of homeownership.

Having Trouble Paying Your Mortgage?

888-995-HOPE

www.995hope.org



888-995-HOPE is available:

- To any homeowner in America having trouble paying their mortgage
- Any time--24/7

888-995-HOPE offers:

- Absolutely free foreclosure prevention counseling by expert counselors at HUD-approved agencies.

When a constituent calls 888-995-HOPE:

- Service begins immediately—the counselors themselves answer the phone
- Homeowners can get budgeting help, a written financial plan, assistance contacting their lender
- If they'd like face-to-face counseling, they are referred to their local NeighborWorks® agency or other counseling agencies
- If they need additional services, they are referred to agencies in their area.

The details:

888-995-HOPE is provided free of charge by the Homeownership Preservation Foundation, a nonprofit dedicated to preserving homeownership. The Foundation partners with local governments, nonprofits, borrowers, and mortgage lenders/servicers to deliver innovative homeownership preservation opportunities.

In 2006, over 40,000 homeowners sought help through our counseling. Nearly half have avoided foreclosure by working out new loan terms or by selling their home. Currently call volume is increasing by 25% every 6-8 weeks. Callers tend to be female, married, with children, mid to lower income.

In-person counseling is provided by NeighborWorks® organizations, located around the country in all 50 states, Puerto Rico and the District of Columbia. NeighborWorks® organizations are chartered by NeighborWorks® America, a national nonprofit created by Congress to provide financial support, technical assistance, and training for community-based revitalization efforts.

Other partners: American General Financial Services, a member of AIG, Inc., Bank of America, Citigroup, Countrywide Home Loans, EMC Mortgage, Freddie Mac, GE, Homecomings Financial- a GMAC Company, Housing Policy Council, HSBC– North America, JPMorgan Chase, LaSalle Bank Corporation – member of ABN-AMRO Group, National City Mortgage Co., New Century Financial Corporation, Ocwen Loan Servicing, LLC, Option One Mortgage, State Farm Insurance, Washington Mutual and Wells Fargo Home Mortgage.

If you need more information:

About 888-995-HOPE:

info@995HOPE.org

About in-person counseling:

foreclosureresolutions@nw.org

